

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Triennial Cost Allocation Proceeding Phase 1
Application of Southern California Gas Company
(U 904 G) and San Diego Gas & Electric Company
(U 902 G) for Authority to Revise their Natural Gas
Rates Effective January 1, 2016.

A.14-12-017

(Filed December 18, 2014)

**JOINT MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G),
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), OFFICE OF RATEPAYER
ADVOCATES, THE UTILITY REFORM NETWORK, INDICATED SHIPPERS, THE
CITY OF LONG BEACH, AND SOUTHWEST GAS CORPORATION (U 905 G) FOR
ADOPTION OF SETTLEMENT AGREEMENT FOR CERTAIN PHASE 1 ISSUES**

MICHAEL R. THORP

Attorney for:

**SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY**

555 West 5th Street, GT14E7

Los Angeles, California 90013

Telephone: (213) 244-2981

Facsimile: (213) 629-9620

E-mail: mthorp@semprautilities.com

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ADOPTION OF SETTLEMENT AGREEMENT FOR CERTAIN PHASE 1 ISSUES**

Pursuant to Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), Indicated Shippers, the City of Long Beach,¹ and Southwest Gas Corporation (Southwest Gas) (collectively referred to hereafter as the Settling Parties) hereby move the Commission to adopt the Phase 1 Settlement Agreement (Settlement) attached hereto in Attachment A, which proposes resolution of certain issues in Phase 1 of this Triennial Cost Allocation Proceeding (TCAP).² The Settlement represents agreement among the parties and proposes resolution of certain Phase 1 issues as discussed below.

I. BACKGROUND

SoCalGas and SDG&E filed their TCAP Phase 1 application on December 18, 2014. In the application, SoCalGas and SDG&E noted that this initial Phase 1 application would present

¹ The Settlement must be approved by the City of Long Beach City Council which approval is pending.

² This Settlement does not cover a number of proposals in SoCalGas and SDG&E's Phase 1 TCAP Application that have not been contested by any party. These uncontested proposals will be addressed in SoCalGas and SDG&E's Opening Brief to be filed on September 4, 2015. The Settlement also does not address a small number of stand-alone proposals made by non-settling parties such as Shell Energy North America (US), L.P. (Shell).

storage and balancing proposals, while an upcoming Phase 2 application would address other traditional TCAP issues, including: demand forecasts, cost allocation (other than storage), rate design, regulatory accounts, and other operational issues.³ In the application, SoCalGas and SDG&E noted that they were presenting this TCAP in two phases in order to deal with competing factors. The rate design and cost allocations presented in the 2013 TCAP were not adopted by the Commission until July of 2014, 18 months later than SoCalGas and SDG&E had proposed. This rate design and cost allocation would continue until changed by the Commission, and it did not make sense to SoCalGas and SDG&E to almost immediately propose changes to such recently-adopted rates. However, the 2013 TCAP Settlement adopted in D.14-06-007 only extended the storage-related provisions from the 2009 BCAP (Biennial Cost Allocation Proceeding) through December 31, 2015. SoCalGas and SDG&E had also recently submitted their Test Year 2016 General Rate Case (GRC) Application (A.14-11-003/004) on November 14, 2014, and believed that litigating a GRC and full TCAP on parallel paths could create resource constraints for both SoCalGas and SDG&E as well as interested parties.

In support of the TCAP Phase 1 application, prepared testimony was served to interested parties. A prehearing conference (PHC) was noticed and held on March 10, 2015, to discuss the issues raised by the application and by the parties, the need for supplemental testimony on certain cost allocation issues, the need for evidentiary hearings, and the schedule for resolving the issues.

An Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on March 18, 2015. The Scoping Memo identified the issues to be considered in this proceeding, set a procedural schedule, determined the category of the proceeding as ratesetting, and determined there was a need for hearings pursuant to Rule 7.3. The Scoping Memo further

³ A.14-12-017 at 8.

required supplemental testimony and a response to a Ruling Requesting Information from SoCalGas and SDG&E on certain specified Phase 1 issues.⁴

SoCalGas and SDG&E served supplemental testimony and their Response to Rulings Requesting Information on April 3, 2015. Intervenor testimony was submitted on June 22 by ORA, TURN, SCE, SCGC, Indicated Shippers, Long Beach, and Shell. Rebuttal testimony was submitted on July 17, 2015 by SoCalGas/SDG&E and Indicated Shippers.

Hearings were scheduled and held from August 3 through August 5, 2015. On July 31, 2015, SoCalGas, SDG&E, ORA, and TURN jointly served a Notice of Settlement Conference, pursuant to Rule 12, for a settlement conference that was held on August 11, 2015, in San Francisco to discuss the potential settlement of Phase 1 issues. This initial meeting was followed by a series of additional settlement meetings, which ultimately led to the submission of this Settlement Agreement

II. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Rule 12.1(d) states that the Commission will not approve a settlement “unless the settlement is reasonable in light of the whole record, is consistent with law, and in the public interest.” As discussed below, the Settlement meets these criteria.

The Commission has consistently recognized the “strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.”⁵ This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable

⁴ A.14-12-017, Scoping Memo and Ruling of Assigned Commissioner, dated March 18, 2015, page 5.

⁵ D.88-12-083, mimeo., at 54. *See also* D.11-05-018, mimeo., at 16.

results.⁶ Moreover, in assessing settlements, the Commission evaluates the *entire* agreement, and not just its individual parts:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.⁷

A. The Settlement is Reasonable in Light of the Record

The SoCalGas/SDG&E application and supporting testimony, the testimony sponsored by the non-utility parties, the utilities' and non-utility parties' respective rebuttal testimony, and the testimony given during cross examination, together with the Settlement and this motion, contain the information necessary for the Commission to find the Settlement reasonable in light of the record. Prior to the settlement, the parties devoted substantial time and effort to working collaboratively to identify and achieve a better common understanding of the range of issues in dispute, the various options for narrowing the number of disputed issues, and opportunities to develop compromise positions that would permit resolution of the disputed issues. The Settlement is a product of those efforts; the success of those efforts is largely attributable to the quality of the information and analysis set forth in the prepared testimony submitted to date by the various parties on the issues covered by the Settlement and clarified further under cross examination. As described more fully in the summary of the Settlement that follows, the specific outcomes on the issues covered by the Settlement are within the range of positions and outcomes defined by that prepared testimony.

⁶ D.92-12-019, mimeo., at 7-8.

⁷ D.10-04-033, mimeo., at 9.

B. The Settlement is Consistent with Law

The Settling Parties are represented by experienced CPUC counsel, and believe that the terms of the Settlement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof. In agreeing to the terms of the Settlement, the Settling Parties considered relevant statutes and Commission decisions and believe that the Settlement is fully consistent with those statutes and prior Commission decisions.

C. The Settlement is in the Public Interest

The Commission has determined that a settlement that “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” meets the “public interest” criterion.⁸ Here, most of the active parties who took positions on the issues covered by the Settlement have joined this motion and have signed the attached Settlement indicating that they believe the agreement represents a reasonable compromise of their respective positions. The range of Settling Parties should provide the Commission comfort, as it includes the applicant utilities and representatives of core and noncore customers that are well-known to the Commission and bring years (and, in some cases, decades) of experience in Commission proceedings to their work here.

The Settlement, if adopted by the Commission, avoids the cost of further litigation, and frees up Commission resources for other proceedings. The Settlement frees up the time and resources of other parties as well, so that they may focus on other Commission proceedings.

D. The Settlement Should be Adopted without Modification

Though each section is discussed separately in the summary below, the Settlement is presented as a whole, and Settling Parties request that it be reviewed and adopted as a whole.

⁸ D.10-06-015, mimeo., at 11-12, *citing* D.92-12-019, mimeo., at 7.

Each provision of the Settlement is dependent on the other provisions of the Settlement; thus modification of any one part of the Settlement would harm the balancing of interests and compromises achieved in the Settlement. The various provisions reflect specific compromises between litigation positions and differing interests; in some instances the proposed outcome reflects a party's concession on one issue in consideration for the outcome provided on a different issue. As described further in the following sections, the proposed outcome on each issue is reasonable in light of the entire record. Accordingly, the Commission should consider and approve the Settlement as a whole, with no modification.

E. The Settlement is Reasonable and Promotes the Public Interest

The Settlement represents agreement among seven of the ten parties that actively participated in this TCAP Phase 1 proceeding.⁹ In settlement negotiations, each party adhered to their individual litigation position as the starting point for discussion of SoCalGas/SDG&E's proposals. Through the negotiation process, however, the Settling Parties were able to identify preferred outcomes that, if adopted, would represent an acceptable resolution for each party involved in the settlement discussions. Each provision of the Settlement is dependent on the other provisions of the Settlement; thus modification of any one part of the Settlement would harm the balancing of interests and compromises achieved in the Settlement. The various provisions reflect specific compromises between litigation positions and differing interests; the Settling Parties believe the provisions of the Settlement are reasonable and supported by the record. Accordingly, the Settlement should be considered and approved as a whole by the Commission as reasonable in light of the entire record, with no modification.

⁹ The non-settling active parties are: Southern California Edison, the Southern California Generation Coalition, and Shell.

The Settlement represents agreement among the Settling Parties regarding resolution of TCAP Phase 1 issues and reflects a compromise among the litigation positions taken by the Settling Parties in this proceeding in a manner that promotes the public interest. Longstanding Commission policy favors settlements. The Settlement is therefore reasonable in light of the whole record and promotes the public interest as required by Rule 12.1(d). The TCAP Phase 1 issues addressed in this Settlement are discussed below.

F. Summary of the Proposed Settlement

Settling Parties seek Commission approval of the terms set forth in the attached Settlement, as summarized below.

1. Storage Capacities

In support of its showing in this proceeding, SoCalGas and SDG&E submitted testimony pertaining to the available storage capacities for inventory, injection, and withdrawal in both the summer and winter seasons.¹⁰ Additionally, SoCalGas and SDG&E submitted testimony further proposing the allocation of these available seasonalized storage capacities to the various storage services of Core, Load Balancing, and Unbundled Storage, which were summarized in a comprehensive allocation table.¹¹

Upon review and analysis of the proposed capacity allocations, ORA,¹² SCE,¹³ Indicated Shippers,¹⁴ and Long Beach¹⁵ submitted testimony proposing various modifications. No party submitting testimony questioned the total storage capacities SoCalGas and SDG&E were proposing to make available. Rather, ORA, SCE, and Indicated Shippers were concerned with

¹⁰ Ex. SCG-03 (Watson) at 1-4.

¹¹ Ex. SCG-03 (Watson) at 10.

¹² Ex. ORA-01 (Stannik) at 5-11 and ORA-03C (Stannik).

¹³ Ex. SCE-01 (Grimm) at 10-11.

¹⁴ Ex. IS-02 (Alexander) at 6-9.

¹⁵ Ex. LB-01 (Fulmer) at 2-4.

the allocation of off-cycle (winter injection and summer withdrawal) capacity. In all cases, parties were interested in higher allocations of firm assets in order to ensure availability of storage services, even in the off-cycle. Long Beach was concerned with the allocation of storage assets to the balancing injection and withdrawal function.

While not submitting intervenor testimony, Southwest Gas cross-examined SoCalGas regarding the storage capacities that would be available to them.¹⁶ Southwest Gas also moved into the record a data response from SoCalGas and SDG&E, which stated: “Assuming that Southwest Gas is willing to commit to pay core rates for storage allocations for the term of the TCAP, as today, then SoCalGas would reserve 1.98% of the core allocations described in Table 3 of Mr. Watson’s testimony for Southwest Gas, also as is done today.”¹⁷

Settling Parties propose to use, for the most part, the total seasonal capacities of inventory, injection, and withdrawal as proposed by SoCalGas and SDG&E. Further, the storage assets allocated to the Load Balancing injection and withdrawal function will be the same as those proposed by SoCalGas and SDG&E. In order to meet the competing interests of core and noncore representatives regarding the allocation of available winter injection assets, the amount of injection assets available in the winter has been increased by 100 MMcfd from those presented in SoCalGas and SDG&E’s testimony, with both Core and Unbundled Storage receiving increased capacities (20MMcfd and 80 MMcfd, respectively), reflecting a compromise between the litigation positions of the various parties.¹⁸ Further, Settling Parties agree that Southwest Gas will be allocated storage capacities (injection, inventory, and withdrawal) from

¹⁶ Tr. at 187-189.

¹⁷ Ex. SWG-01.

¹⁸ If this Settlement is implemented prior to April 1, 2016, SoCalGas and SDG&E will continue to honor existing contracts for firm winter injection capacity for the current storage year (April 1, 2015-March 31, 2016) that are higher than the firm injection capacity allocated under this Settlement, subject to Rule 30 prorationing.

the unbundled storage program equal to 1.98% of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E in this Settlement at the same rates included in the Settlement for the combined core customers of SoCalGas and SDG&E. Similarly, Long Beach will also be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.0% of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E in this Settlement at the same rates included in the Settlement for the combined core customers of SoCalGas and SDG&E.

2. Cost Allocation

SoCalGas and SDG&E presented in this application an alternative method for allocating storage costs to storage functions than had been used in the past.¹⁹ Rather than first allocating costs to storage functions in thirds and then allocating costs to core, load balancing, and withdrawal based on annual storage capacities, SoCalGas and SDG&E employed a method that had been used previously by Pacific Gas & Electric Company (PG&E), which allocates costs by determining total storage units and allocating embedded storage costs among those storage units.

In the Scoping Ruling, SoCalGas and SDG&E were ordered to submit Supplemental Testimony providing the allocation of storage costs under the existing methodology.²⁰ TURN,²¹ SCGC,²² and Long Beach²³ supported continuation of the existing methodology in their testimony.

Settling parties propose a hybrid solution that allocates costs first to the storage functions of inventory, injection, and withdrawal by thirds, similar to the existing methodology. Then, storage costs allocated to inventory, injection, and withdrawal are subsequently allocated to core,

¹⁹ Ex. SCG-03 (Watson) at 11.

²⁰ Ex. SCG-04 (Watson).

²¹ Ex. TURN-01 (Emmrich) at 1-3.

²² Ex. SCGC-01 (Yap) at 24-26.

²³ Ex. LB-01 (Fulmer) at 4-5.

load balancing, and unbundled storage based on the agreed-upon seasonalized capacities, where injection and withdrawal capacities are weighted by the relative number of days in the winter or summer seasons. SoCalGas and SDG&E further agree to perform a storage functionalization cost causation study by inventory, injection, and withdrawal functions such as was performed by SoCalGas and SDG&E in 2008 in the next TCAP, and will include testimony and, as appropriate, workpapers as part of their direct showing in the next TCAP to present the results of the storage study.

3. Unbundled Storage Program

As part of the 2009 Phase 1 BCAP Settlement adopted in D.08-12-020, SoCalGas has a shareholder incentive mechanism associated with net revenues (gross revenues minus allocated costs) from the unbundled storage program that consists of: 90/10 (customer/shareholder) sharing of the first \$15 million of net revenues; 75/25 sharing of the next \$15 million of net revenues; and 50/50 sharing of net revenues over \$30 million, subject to a \$20 million annual shareholder earnings cap.²⁴ Prior to the adoption of this settlement, from 1999-2008 the unbundled storage program had a straight 50/50 sharing mechanism for net revenues. For this TCAP term, SoCalGas and SDG&E had recommended a 60/40 sharing of net revenues, while maintaining the shareholder earnings cap of \$20 million.²⁵

While some parties submitting testimony on this issue agreed that the mechanism could be altered, there was a vast array of proposed alternatives. ORA proposed a 75/25 sharing of net revenues.²⁶ SCGC proposed sharing net revenues at 85/15 and capping shareholder earnings at \$5 million.²⁷ In proposing to maintain the current mechanism, TURN suggested that if the

²⁴ D.08-12-020, mimeo., at 19-22.

²⁵ Ex. SCG-03 (Watson) at 13.

²⁶ Ex. ORA-01 (Stannik) at 15.

²⁷ Ex. SCGC (Yap) at 23.

Commission decided to make a change, it could provide SoCalGas and SDG&E 100% of the first \$500 thousand in net revenues, and then continuing with the current mechanism.²⁸ SCE²⁹ and Indicated Shippers³⁰ proposed maintaining the current sharing mechanism.

Given the breadth of positions, Settling Parties propose to adopt the mechanism suggested by ORA: a 75/25 (ratepayer/shareholder) sharing of net revenues. Settling Parties also agree to maintain the \$20 million annual shareholder earnings cap. This position generally marks a midpoint between parties' positions.

4. Storage Postings

As part of D.07-12-019 (the Omnibus Decision), SoCalGas agreed to post primary unbundled storage transaction details on its Envoy system the day after a deal was executed. As part of the Application, SoCalGas and SDG&E presented testimony explaining why this posting requirement should be eliminated.³¹ ORA,³² SCGC,³³ Indicated Shippers,³⁴ SCE,³⁵ and Shell³⁶ submitted testimony opposing the proposal to end this posting requirement.

As part of the comprehensive settlement agreement, Settling Parties agree that SoCalGas will continue to post these transactions on Envoy.

5. Monthly Balancing

Customers on SoCalGas and SDG&E's system currently have a 10% monthly imbalance tolerance along with a one-month imbalance trading period. In testimony, SoCalGas and

²⁸ Ex. TURN-01 (Emmrich) at 4.

²⁹ Ex. SCE-01 (Grimm) at 2-5.

³⁰ Ex. IS-01 (Alexander) at 27-33.

³¹ Ex. SCG-03 (Watson) at 15-16.

³² Ex. ORA-01 (Stannik) at 15-18.

³³ Ex. SCGC-01 (Yap) at 26-28.

³⁴ Ex. IS-01 (Alexander) at 33-37.

³⁵ Ex. SCE-01 (Grimm) at 8-10.

³⁶ Ex. Shell-01 (Dyer) at 10.

SDG&E proposed tightening this monthly imbalance tolerance to 5% while maintaining the one-month imbalance trading period.³⁷ In its testimony, TURN expressed support for this proposal.³⁸

Indicated Shippers³⁹ and SCE⁴⁰ opposed moving to 5% monthly balancing, preferring to maintain the current 10% tolerance. SCGC opposed moving to 5% monthly balancing unless customers were allowed to clear their imbalances during the second month following the month in which the imbalance was incurred.⁴¹ Shell opposed moving to 5% monthly balancing unless the Commission examined other ways in which the imbalance protocol should conform to the PG&E protocol.⁴²

As part of the comprehensive settlement agreement, and taking into account the varying positions on the subject, Settling Parties agree that the monthly imbalance tolerance should be 8%, which is a reasonable mid-point between the two proposals. Settling Parties also agree that SoCalGas and SDG&E will retain their current one-month imbalance trading period requirement.

6. High Operational Flow Orders (OFOs)

SoCalGas and SDG&E proposed revising their high OFO protocol to be similar to the low OFO protocol that was proposed in A.14-06-021, and ultimately adopted by D.15-06-004. SoCalGas and SDG&E already have a high OFO procedure in place, but that mechanism is based on physical injection capability rather than the injection assets specifically allocated to the daily balancing function. The formula for the procedure already in place is as follows: If forecasted receipts – forecasted sendout > total injection capacity, then high OFO. SoCalGas and SDGE proposed to trigger a high OFO whenever transportation customers attempt to inject

³⁷ Ex. SCG-03 (Watson) at 9.

³⁸ Ex. TURN-01 (Emmrich) at 1.

³⁹ Ex. IS (Alexander) at 23-27.

⁴⁰ Ex. SCE (Grimm) at 6-8.

⁴¹ Ex. SCGC-01 (Yap) at 16-17.

⁴² Ex. Shell-01 (Dyer) at 6-7.

more supply than is allocated to that daily balancing function. Using the current allocation to balancing, the formula for the triggering mechanism for a high OFO would be: If forecasted receipts – forecasted sendout – forecasted net injections into storage accounts > 200 MMcfd, then high OFO. At the same time a high OFO would be called, a Stage level would be called.⁴³ The following table lays out the OFO stages proposed by SoCalGas and SDG&E.⁴⁴

Stage	Daily Imbalance Tolerance	Noncompliance Charge (\$/therm)
1	Up to +25%	0.025
2	Up to +20%	0.10
3	Up to +15%	0.50
4	Up to +5%	2.50
5	Up to +5%	2.50 plus Rate Schedule G-IMB daily balancing standby rate
EFO	Zero	5.00 plus Rate Schedule G-IMB daily balancing standby rate

In testimony, Indicated Shippers opposed the change in the OFO protocol.⁴⁵ SCGC did not oppose the change in the OFO protocol, but proposed that the Commission delay the implementation of the new OFO trigger until SoCalGas and SDG&E could demonstrate a more reliable forecast of positive imbalances.⁴⁶ SCGC also proposed that the tolerance caps for each stage be eliminated, and that SoCalGas and SDG&E determine the tolerance level for each high

⁴³ Ex. SCG-03 (Watson) at 6.

⁴⁴ Ex. SCG-03 (Watson) at 7.

⁴⁵ Ex. IS-01 (Alexander) at 5-16.

⁴⁶ Ex. SCGC-01 (Yap) at 4-9.

OFO event based on the level of assets used in the trigger calculation without regard to the stage of the OFO.⁴⁷

Settling Parties agree to allow SoCalGas and SDG&E to implement their proposed new high OFO protocol. However, several restrictions have been placed on SoCalGas and SDG&E to allay concerns of parties. Under the Settlement Agreement, the new high OFO mechanism would not be able to go into effect without a demonstration of forecasting accuracy. Further, the forecasting methodology and all components of the forecasting methodology will be required to be publicly available and any changes to the methodology will be required be posted at least fifteen days before becoming effective. Finally, the new high OFO Trigger mechanism will not be able to become effective until the Aliso Canyon 145 MMcf/d expansion of injection capacity is in operation.

7. Term of the Settlement

In intervenor testimony, SCGC proposed that the Commission require SoCalGas and SDG&E to file their next TCAP, which will be for test year 2020, no later than July 1, 2018.⁴⁸ Indicated Shippers in rebuttal testimony agreed with SCGC's recommendation, adding that the Commission should require all phases of the next TCAP be submitted together so they could be considered holistically.⁴⁹

Settling Parties agree that SoCalGas and SDG&E will file their next TCAP in a single application that includes all aspects of the application. The next TCAP application will be filed 18 months before the requested effective date of the proposed changes, which is anticipated to have a requested effective date of January 1, 2020. This Settlement will be effective from the date the Commission adopts it until the Commission-authorized implementation date of the next

⁴⁷ Ex. SCGC-01 (Yap) at 9-12.

⁴⁸ Ex. SCGC-01 (Yap) at 28.

⁴⁹ Ex. IS-02 (Alexander) at 20.

SoCalGas and SDG&E TCAP that occurs after A.14-12-017 (current Phase 1 TCAP Application) and A.15-07-014 (current Phase 2 TCAP Application).

8. No Adoption of Proposed Changes to G-TBS Tariff on As Available Injection Rights

In testimony, SoCalGas proposed revising Section 15 of its G-TBS Schedule on as-available injection rights from “Zero-priced, lowest priority, interruptible injection and withdrawal service shall be included with all sales of inventory, whether that inventory is sold on a stand-alone or package basis” to “Negotiated amounts of lowest priority, interruptible injection and withdrawal service may be included with inventory sales.”⁵⁰ SoCalGas proposed that the tariff language be changed after March 2016.⁵¹ Indicated Shippers opposed this proposal in testimony and recommended retention of the existing tariff language.⁵² As part of the comprehensive settlement agreement, and taking into account the varying positions on the subject, Settling Parties agree that the G-TBS tariff language on as-available injection rights shall not be changed.

⁵⁰ Ex. SCG-03 (Watson) at 12.

⁵¹ Id.

⁵² Ex. IS-01 (Alexander) at 20-22.

III. CONCLUSION

As shown herein, the Settlement is reasonable in light of the whole record, is consistent with law, promotes the public interest, and should be approved the Commission.

Respectfully submitted,

By: /s/ Michael R. Thorp
MICHAEL R. THORP

Attorney for:
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West 5th Street, GT14E7
Los Angeles, California 90013
Telephone: (213) 244-2981
Facsimile: (213) 629-9620
E-mail: mthorp@semprautilities.com

August 31, 2015

Attachment A

Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 G), Office of Ratepayer Advocates, the Utility Reform Network, Indicated Shippers, the City Of Long Beach, and Southwest Gas Corporation (U 905 G) Phase 1 Settlement Agreement

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CITY OF LONG BEACH, AND SOUTHWEST GAS CORPORATION (U 905 G)
PHASE 1 SETTLEMENT AGREEMENT**

Pursuant to Article 12 of the Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), Indicated Shippers, the City of Long Beach,¹ and Southwest Gas Corporation (Southwest Gas) (collectively referred to hereafter as the Settling Parties) respectfully submit to the Commission this Settlement Agreement (Settlement). In this Settlement, the Settling Parties provide a recommended resolution of most of the contested issues in Phase 1 of this proceeding.²

**I
REASONABLENESS OF THE SETTLEMENT**

The Settling Parties submit that this Settlement complies with the Commission's requirements that settlements be reasonable, consistent with law, and in the public interest. The Settling Parties have recognized that there is risk involved in litigation, and that a party's filed position might not prevail, in whole or in part, in the Commission's final determination. The

¹ The Settlement must be approved by the City of Long Beach City Council which approval is pending.

² This Settlement does not cover a number of proposals in SoCalGas and SDG&E's Phase 1 TCAP Application that have not been contested by any party. The Settlement also does not address a small number of stand-alone proposals made by non-settling parties such as Shell Energy North America (US), L.P.

Settling Parties have reached compromise positions that they believe are appropriate in light of the litigation risks. This Settlement reflects the Settling Parties' best judgments as to the totality of their positions and risks, and their agreement herein is explicitly based on the overall results achieved.

II SETTLEMENT TERMS AND CONDITIONS

A. Effective Date; Term of Agreement

1. The Effective Date of this Settlement is the later of January 1, 2016, or the date upon which the Commission approves the Settlement. The rates impacted by this Settlement shall go into effect upon the date(s) established by the Commission.
2. The term of the Settlement shall extend from the date upon which the Commission approves the Settlement through the Commission-authorized implementation date of the next SoCalGas and SDG&E TCAP Application that is filed after A.14-12-017 (current Phase 1 TCAP Application) and A.15-07-014 (current Phase 2 TCAP Application).
3. SoCalGas/SDG&E shall file their next TCAP in a single application that includes all aspects of the application. The next TCAP application will be filed 18 months before the requested effective date of the proposed changes. The next TCAP is anticipated to have a requested effective date of January 1, 2020.

B. Settlement Terms

1. Storage Capacities

- a. Total combined firm storage capacity available at SoCalGas' storage fields shall initially be 138.1 Bcf of total storage inventory capacity, 770 MMcfd of summer (April 1 through October 30) storage injection

capacity, 490 MMcfd of winter (November 1 – March 31) storage injection capacity, 3,175 MMcfd of winter storage withdrawal capacity, and 1,812 MMcfd of summer storage withdrawal capacity. Upon the completion (placing in service) of the Aliso Canyon Turbine Replacement Project, summer injection capacity will increase to 915 MMcfd and winter injection capacity will increase to 635 MMcfd.³ These storage capacities (1,812 MMcfd for Summer Withdrawal; 915 MMcfd for Summer Injection; 3,175 MMcfd for Winter Withdrawal; and 635 MMcfd for Winter Injection) shall be maintained until the termination of this Settlement.

- b. The combined core customers of SoCalGas/SDG&E shall be allocated 83.0 Bcf of storage inventory capacity, 388 MMcfd of summer injection storage capacity, 210 MMcfd of winter storage injection capacity, 2,225 MMcfd of winter storage withdrawal capacity, and 1,081 MMcfd of summer storage withdrawal capacity. These storage allocations for core shall be maintained until the termination of this Settlement.
- c. The balancing function will initially be allocated 8.0 Bcf of storage inventory capacity, 200 MMcfd of annual storage injection capacity, and 525 MMcfd of annual storage withdrawal capacity. Upon the completion (placing in service) of the Aliso Canyon Turbine Replacement Project, the balancing function will be allocated an additional 145 MMcfd of storage injection capacity, for a total of 345

³ At this time, SoCalGas and SDG&E anticipate that the Aliso Canyon Turbine Replacement Project will be in operation by the beginning of 2017.

MMcfd. The storage allocations in effect for the balancing function once Aliso Canyon Turbine Replacement Project begins operation shall be maintained until the termination of this Settlement. As described in Section 2b below, the combined core customers of SoCalGas/SDG&E will be allocated a share of the balancing costs of storage inventory, injection, and withdrawal capacity, and shall not be required to balance within the storage inventory capacity allocated to them under this Settlement.

- d. Storage injection, inventory, and withdrawal capacity available to the unbundled storage program shall be the residual after the allocation of capacity to the balancing function, SoCalGas/SDG&E core customers, and wholesale customers (Long Beach and Southwest Gas).⁴
- e. The allocations outlined in sections (a) through (d) above are reflected in the following table: Bcf stands for billions of cubic feet. All other columns have units of millions of cubic feet per day (MMcfd).

	Bcf	Withdrawal Winter	Withdrawal Summer	Injection 2016 Summer	Injection 2017-19 Summer	Injection 2016 Winter	Injection 2017-19 Winter
Total	138.1	3,175	1,812	770	915	490	635
Balancing	8	525	525	200	345	200	345
Core	83	2,225	1,081	388	388	210	210
Unbundled	47.1	425	206	182	182	80	80

- f. Southwest Gas shall be allocated storage capacity from the unbundled storage program at the same rates included in this Settlement for the

⁴ If this Settlement is implemented prior to April 1, 2016, SoCalGas and SDG&E will continue to honor existing contracts for firm winter injection capacity for the current storage year (April 1, 2015-March 31, 2016) that are higher than the firm injection capacity allocated under this Settlement, subject to Rule 30 prorationing.

combined core customers of SoCalGas and SDG&E. Southwest Gas shall be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.98% of the storage capacities allocated to the combined core customers of SoCalGas and SDG&E in this Settlement.

- g. Long Beach shall be allocated storage capacity from the unbundled storage program at the same rates included in this Settlement for the combined core customers of SoCalGas and SDG&E. Long Beach shall be allocated storage capacities (injection, inventory, and withdrawal) from the unbundled storage program equal to 1.00% of the storage capacities allocated to the combined core of SoCalGas and SDG&E in this Settlement.

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- h. The following table provides a summary of the positions of parties regarding storage injection and withdrawal capacities.

Party Positions on Injection and Withdrawal Rights								
		BCF	Withdrawal		Injection			
			Winter	Summer	Summer		Winter	
					2016	2017 +	2016	2017 +
2009 TCAP (1) (Ex. ORA-02 pp. 31-36)	Total	138.1	3,195	3,195	850			
	Balancing	4.2	340	340	200			
	Core	83.0	2,225	2,225	388			
	Unbundled	50.9	630	630	262			
SCG/SDG&E (Ex. SCG-04 p. 2)	Total	138.1	3,175	1,812	770	915	390	535
	Balancing	5.1	525	525	200	345	200	345
	Core	83.0	2,225	1,081	388	388	190	190
	Unbundled	50.0	425	206	182	182	0	0
SCE (Ex. SCE-01 pp. 10-11)	Total	138.1	3,175	1,812	770	915	390	535
	Balancing	5.1	525	525	200	345	200	345
	Core	83.0	2,225	461	388	388	68	68
	Unbundled	50.0	425	826	182	182	122	122
IS (Ex. IS-01) pp. 15-22.)	Total Balancing Core Unbundled	Opposes adding to the balancing function in 2017 when Aliso Canyon comes online if IS recommendations are adopted. If not, then increasing the amount allocated to the injection function in 2017 onward as proposed by SCG/SDG&E is appropriate. Unbundled storage customers should also receive injection capacity.						
Long Beach (Ex. LB-01 pp. 1-4)	Total Balancing Core Unbundled	Maintain status quo.						
ORA (Ex. ORA-01 pp. 5-11)	Total Balancing Core Unbundled	Maintain annual allocation.						

(1) 2009 TCAP Withdrawal and Injection was done on an annual basis. Numbers are included on a seasonal basis for comparison to proposals on seasonal basis.

2. Cost Allocation

- a. Authorized storage costs will be allocated 1/3 to the inventory function, 1/3 to the injection function, and 1/3 to the withdrawal function.
- b. Storage costs allocated to the inventory, injection, and withdrawal functions will subsequently be allocated to core, load balancing, and unbundled storage services based on the seasonalized capacities set forth

in Section B.1 above, where injection and withdrawal capacities are weighted by the relative number of days in the winter or summer seasons. The following table provides the resulting allocations.

	Core	Balancing	Unbundled	Total
2016 \$MM	\$54.94	\$19.79	\$21.46	\$96.19
2017-2019 \$MM	\$59.94	\$27.35	\$23.29	\$110.58

- c. For the next TCAP, SoCalGas and SDG&E shall perform a storage functionalization cost causation study by inventory, injection, and withdrawal functions such as was performed by SoCalGas and SDG&E in 2008. SoCalGas and SDG&E shall include testimony and, as appropriate, workpapers as part of their direct showing in the next TCAP to present the results of the storage study.

3. Unbundled Storage Program

- a. Net revenues (gross revenues minus allocated costs) received by SoCalGas through the unbundled storage program shall be shared between SoCalGas' ratepayers and shareholders on a 75/25 ratepayer/shareholder basis.
- b. There shall be an annual cap on shareholder earnings of \$20 million.
- c. The following tables provide a summary of the agreed upon sharing and the positions of parties regarding the unbundled storage program:

Table Showing Agreed Upon Terms for Unbundled Storage Sharing:

Ratepayers	Shareholders	Shareholder Cap
75%	25%	\$20 M

Table Showing Parties' Positions on Unbundled Storage Program:

Party Positions on Unbundled Storage Program				
Party		Sharing Percentage		Shareholder
		Ratepayer	Shareholder	Cap
Current	2008 TCAP Phase 1, 19-22	See Note 1.		
SCG/SDG&E	Ex. SCG-03, p. 13	60	40	\$20 M
ORA	Ex. ORA-01, p. 15	75	25	\$20 M
SCGC	Ex. SCGC-01, p. 23	85	15	\$5 M
Shell	Ex. Shell-01, pp. 8-9	See Note 2.		
TURN	Ex. TURN-01, p. 4	See Note 3.		
IS	Ex. IS-01, p. 32	Maintain current mechanism.		
SCE	Ex. SCE-01, p. 4	Maintain current mechanism.		
Long Beach		No position.		

(1) 90/10 for the first \$15 million; 75/25 for the next \$15 million; 50/50 for net revenues over \$30 million; all subject to a \$20 million cap.

(2) Shell's testimony states, "While Shell Energy is not opposed to some level of sharing under the unbundled storage program, any shareholder benefits should be accompanied by the elimination of SoCalGas/SDG&E tariff provisions allowing pro-rationing, curtailment or other actions diminishing firm transportation and storage rights." Shell does not offer specific proposals or propose a shareholder earnings cap.

(3) TURN proposes keeping the current mechanism, but allowing the first \$500,000 to go directly to shareholders.

4. Storage Postings

- a. SoCalGas shall continue to post primary unbundled storage transaction details on its Electronic Bulletin Board system per current tariffs.

5. Monthly Balancing

- a. Balancing Service will be provided without charge if the cumulative imbalance at the end of the monthly imbalance trading period is within 8% of the customer's usage, in case of core aggregators their applicable Daily Contract Quantity, or in the case of the Utility Gas Procurement

Department the applicable Daily Forecast Quantity, for the billing period. Imbalance quantities remaining at the end of the designated imbalance trading period and which are outside of the 8% tolerance band will be billed at the Standby Procurement Charge or purchased by the Utility at the Buy-Back Rate.

6. High Operational Flow Orders

- a. A high Operational Flow Order (OFO) will be called if the amount of storage injection capacity allocated to the balancing function is forecasted to be exhausted. The necessary tariff changes for the high OFO will be adopted. The following table outlines the stages and their corresponding tolerances and noncompliance charges.

Stage	Daily Imbalance Tolerance	Noncompliance Charge (\$/therm)
1	Up to +25%	0.025
2	Up to +20%	0.10
3	Up to +15%	0.50
4	Up to +5%	2.50
5	Up to +5%	2.50 plus Rate Schedule G-IMB daily balancing standby rate
EFO	Zero	5.00 plus Rate Schedule G-IMB daily balancing standby rate

- b. The new High OFO Trigger mechanism cannot go into effect without a demonstration that SoCalGas has developed a day-ahead forecasting methodology consistent with the standards ultimately approved through

AL 4822, Modification of Tariffs Necessary to Implement Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) Requirements and Description of Forecasting Model in Compliance with D.15-06-004.

- c. The forecasting methodology and all components of the forecasting methodology shall be publicly available through posting on Envoy such that any party can replicate SoCalGas's resulting forecasts. Any changes to the methodology shall be posted at least fifteen days before becoming effective.
- d. The new High OFO Trigger mechanism cannot become effective until the Aliso Canyon 145 MMcf/d expansion of injection capacity is in operation.

7. No Change to G-TBS provision on As-Available Injection Rights

The changes proposed by SoCalGas and SDG&E to the G-TBS provision on as-available injection rights will not be adopted during this TCAP cycle.

**III
ADDITIONAL TERMS AND CONDITIONS**

A. The Public Interest

The Settlement Parties agree jointly by executing and submitting this Settlement that the relief requested herein is just, fair and reasonable, and in the public interest.

B. Non-Precedential Effect

This Settlement is not intended by the Settling Parties to be precedent for any future proceeding. The Settling Parties have assented to the terms of this Settlement only for the purpose of arriving at the settlement embodied in this Settlement. Except as expressly

precluded in this Settlement, each of the Settling Parties expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this Settlement, and the Settling Parties expressly declare that, as provided in Rule 12.5 of the Commission's Rules, this Settlement should not be considered as a precedent for or against them. Likewise, the Settlement explicitly does not establish any precedent on the litigated issues in the case.

C. Partial Settlement

This Settlement is a partial settlement of Phase 1 issues. It is not intended to resolve issues not covered by the Settlement, or to preclude any of the Settling Parties from making any arguments or taking any positions with respect to such issues.

D. Indivisibility

This Settlement embodies compromises of the Settling Parties' positions. No individual term of this Settlement is assented to by any of the Settling Parties, except in consideration of the other Settling Parties' assents to all other terms. Thus, the Settlement is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this Settlement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Settling Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes to the Settlement in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

The Settling Parties acknowledge that the positions expressed in the Settlement were reached after consideration of all positions advanced in the prepared testimony of SoCalGas, SDG&E, ORA, TURN, Indicated Shippers, City of Long Beach, and the other active parties, as well as proposals offered during the settlement negotiations. This document sets forth the

entire agreement of the Settling Parties on all of those issues, except as specifically described within the Settlement. The terms and conditions of this Settlement may only be modified in writing subscribed by all Settling Parties.

Dated this 31st day of August, 2015.

SOUTHERN CALIFORNIA GAS COMPANY and
SAN DIEGO GAS & ELECTRIC COMPANY

/s/ Michael R. Thorp
By: Michael R. Thorp
Title: Chief Regulatory Counsel

OFFICE OF RATEPAYER ADVOCATES

/s/ Joe Como
By: Joe Como
Title: Acting Director

THE UTILITY REFORM NETWORK

/s/ Robert Finkelstein
By: Robert Finkelstein
Title: General Counsel

INDICATED SHIPPERS

/s/ Nora Sheriff
By: Nora Sheriff
Title: Counsel

CITY OF LONG BEACH

/s/ Patrick H. West
By: Patrick H. West
Title: City Manager

SOUTHWEST GAS CORPORATION

/s/ Kyle Stephens
By: Kyle Stephens
Title: Assistant General Counsel